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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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The U.S. Trade Deficit . . .

Last week's announcement by the Department of Commerce of another monthly U.S. trade deficit of $11.9 billion for April—the third highest ever—is further confirmation, if any is needed, that again a record annual trade deficit is in the making. The cumulative deficit for the first four months of this year has reached $44.6 billion, 6.2 percent ahead of last year's pace for the same period. Should recent trends continue, the U.S. trade deficit could expand to perhaps $120 billion after $108 billion last year (customs valuation).

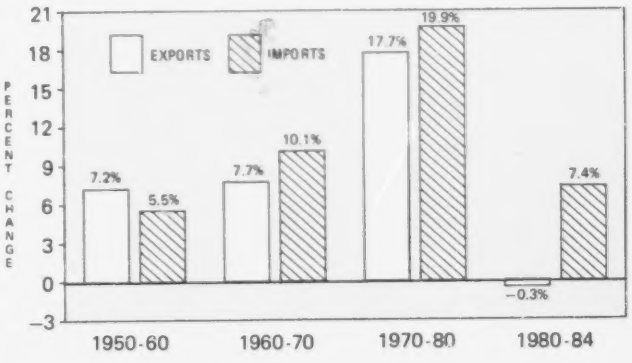
Although rising imports have received the wider attention, stagnant exports have contributed more to America's trade woes in the last five years than a flood of imports. While imports did rise a phenomenal 26.2 percent last year, the average annual growth rate of imports between 1980—when the dollar started to soar—and 1984 has been only 7.4 percent. This is just slightly higher than the 5.5 percent average annual increase in the decade of the 1950s, when U.S. dominance in global trade was unchallenged, and much lower than the 19.9 percent annual average in the inflation-ridden 1970s.

What has changed significantly, however, is that since 1980 U.S. exports have virtually ceased to grow (see chart). Even with the 8.7 percent rise in 1984 exports over 1983 the value of U.S. exports last year was still below the level of 1980. Had exports grown since 1980 at over eight percent annually, which is slightly more than the average annual rate of 7.2 percent of the 1950s and well below the 17.7 percent rate of the 1970s, then the 1984 U.S. trade deficit would have been lower than it was in 1980 ($24.2 billion).

. . . Reflects Stagnant Exports . . .

A pessimistic interpretation of these export developments is that although the U.S. continues as the world's mightiest exporter, it is, nonetheless, fast losing its lead to other nations which are more aggressive at exporting. Indeed, in 1960, the value of U.S. exports was five times that of Japan, but this proportion dwindled to only 1.7 times by 1980 and only 1.25 times by last year. Barring unusual trade developments, exports of the two countries could be at parity within five years. What is more, Japan is not the only country whose exports are challenging the U.S. position. For example, four other Asian countries—Hong Kong, Taiwan, Singapore and South Korea—have become adept at exporting both low- and high-tech products. Again looking back to 1960, the value of U.S. exports then was about nine times that of the combined exports of these four countries. But, by 1980, this proportion had fallen to only three times and, by last year, to only two times. Today, these countries' exports stand in relation to U.S. exports where Japan's were just ten years ago.

U.S. EXPORTS VS. IMPORTS
(AVERAGE ANNUAL PERCENT CHANGE FOR SELECTED PERIODS)



A more optimistic appraisal of the sluggishness in U.S. exports is that it merely reflects the temporary strength of the U.S. dollar and transient economic problems in many of the United States' major export markets. As soon as this country's traditional markets revive, U.S. exports should also revive. Indeed, exports to Latin America in 1984 were $10 billion less than in 1980, and nearly $10 billion less to Western Europe as well. Even if this interpretation is accepted, however, economic normalcy in Latin America still appears far off, and economic growth prospects for Europe for the near future are also uncertain. Further, even a weaker dollar might not benefit U.S. exports substantially since high productivity and present wide profit margins will allow Japan and the other "little Japans" of Asia, to

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match falling U.S. export prices and strengthen their position in world markets. This has already happened in the U.S., with Americans buying from Asian suppliers more and more products which this country traditionally produced.

Consider, for instance, non-automotive capital goods, which is the most important category of U.S. exports and in which the U.S. has had the greatest competitive advantage historically. For this category, the U.S. trade surplus has shrunk dramatically—from $43 billion in 1980 to only $12 billion last year—reflecting virtually unchanged capital goods exports at $72 billion, and more than a doubling of imports, to $60 billion. In the second most important U.S. export category—non-fuel industrial raw material supplies that go into the manufacture of many finished products—the traditional U.S. surplus, which amounted to $15 billion in 1980, swung into a deficit exceeding $9 billion last year, reflecting a drop in exports and a strong rise in imports.

. . . And A Narrowing High-Tech Lead

Perhaps most disturbing to the U.S. in international trade is the erosion of its position in high-technology products. Since World War II the United States has enjoyed the benefit of being the world's leading high-tech exporter. And these products, which embody large amounts of research and development costs or require large numbers of engineers or

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit	5/29/85		
U.S. Gov'ts and Agencies Owned Outright & RPs	172.586	– .132	+11.876
Loans to Depository Inst.	1.174	– .300	– 1.834
Float	.487	– .104	+ .093
Total Reserve Bank Credit	185.745	– .305	+13.546
Treasury Deposits with Federal Reserve Banks	3.245	+ .107	– .087
Currency in Circulation	183.967	+ .930	+11.314
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	120.328	+ 1.141	+ 6.811
	5/22/85		
Member Bank Reserves:			
Total Reserves Held	40.702	+ .175	+ 3.882
Excess (Deficiency)	.842	+ .140	+ .223
Net Borrowed Reserves	.223	+ .368	– 3.304

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (5/20/85)	582.3	+ 8.6‡	+ 6.8‡
M2 (April '85)	2,427.6	+ 4.8	+ 8.3
M3 (April '85)	3,057.4	+ 4.9	+ 9.7
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/31/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.16%	7.27%	7.49%
* Federal Agencies	7.46	7.72	8.27
* Municipal Notes—High Grade (46% Taxable Equivalent)	8.70	8.80	8.80
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.53	7.68	8.13

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.35%	Jun.	7.50%
15- 29 days	7.35	Jul.	7.50
30- 59 days	7.35	Aug.	7.50
60- 89 days	7.40	Sep.	7.50
90-179 days	7.48	Oct.	7.50
180-239 days	7.55	Nov.	7.50
240-270 days	7.55		

‡Industrial Paper—Prime			
30- 89 days	7.45%	†Federal Funds Effective Rate	7.52%
90-120 days	7.45		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'85	$ 3,817	$ 3,759	$ 3,553
Gross National Product (1972 Dollars)*	1st Q'85	$ 1,665	$ 1,662	$ 1,611
Percent Change, Annual Rate	1st Q'85	0.7	4.3	10.1
Change in Consumer Prices*	Apr '85	4.8%	6.0%	4.8%
Change in Producer Prices*	Apr '85	3.6%	2.4%	0.0%
Civilian Employment (Thousands of Persons)†	Apr '85	106,945	107,119	104,402
Unemployment as % of Civilian Labor Force†	Apr '85	7.3%	7.3%	7.8%
Personal Income*	Apr '85	$ 3,174	$ 3,156	$ 2,969
Leading Indicators Composite Index (1967=100)†	Apr '85n	167.4	167.7r	168.1
Industrial Production Index (1967=100) †	Apr '85	165.4	165.8	162.1
Net Change in Consumer Installment Credit †	Mar '85	$ 8.34	$ 9.04	$ 5.93
U.S. Merchandise Trade Balance †	Apr '85n	–$ 11.85	–$ 11.05	–$ 11.88
Plant and Equipment Expenditures*	2nd Q'85	$388.86(a)	$380.05(a)	$348.34
Private Housing Starts (Thousands of Units)*	Apr '85	1,913	1,883	1,949
New Construction Expenditures*	Mar '85	$ 324.2	$ 323.8	$ 309.7
Total Business Inventories †	Mar '85	$ 578.2	$ 578.9	$ 538.8
Total Business Sales †	Mar '85	$ 420.2	$ 418.7	$ 404.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

scientists to produce them, have been considered the area in which this country could be expected to recoup a large part of its export markets.

However, competition from other nations has begun to erode this lead. According to the Department of Commerce, the United States' share of high-technology exports of major industrial nations peaked at 29.7 percent in 1968. The subsequent decline in this share has so far not been large, and U.S. high-tech shipments—including such items as capital equipment (e.g., aircraft, computers, engines), drugs, chemicals, plastics, missiles and such—totaled a sizable $65 billion in 1984, making this country still the world's largest high-tech exporter.

But imports of high-technology products have been a growing problem. As a result, the U.S. surplus in this trade is estimated to have fallen from a high of $23.6 billion in 1981 to less than $5 billion last year. And despite this overall surplus there were large and growing deficits in some products such as semiconductors and components, communications equipment, office machines and consumer electronics, with Japan and other Asian exporters accounting for large parts of these deficits. All this suggests that the U.S. may have to rely upon more than a revival of other economies and a weaker dollar to reinvigorate its external trade. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (5/15/85)	155,519	– 420	+ 8,178
New York City (5/22/85)	33,827	– 174	+ 2,554
Commercial Paper (5/22/85)	260,283	+ 2,030	+43,625

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/15/85)	254,858	– 949	+ 11,9[illegible]
New York City (5/22/85)	61,765	– 283	– 1,588

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/15/85)	678,974	+ 6,980	+ 67,543
New York City (5/22/85)	147,996	– 5,135	+ 10,5[illegible]

Financial Markets

	Friday 5/31/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.35%	– .04	– 2.80
180-Day Bills†	7.59	– .16	– 3.56
Longest Bills†	7.93	– .22	– 4.07
Recent Issues:			
9 1/2s 5/31/87	8.66	– .47	
11 1/4s 3/31/89	9.55	– .20	
11 1/4s 5/15/95	10.27	– .28	
11 1/4s 2/15/15	10.57	– .26	
Municipals:			
Bond Buyer–20 Bond Index* (5/30/85)	8.81%	– .10	– 2.26
Blue List Total ($ Million)	$1,954	+ $ 62	+ $ 576
30-Day Visible Supply ($ Million)	$3,736	+ $551	+ $1,560
Total	$5,690	+ $613	+ $2,136
Corporates:			
Moody's Aa Composite (5/30/85)	11.76%	– .36	– 2.71
30-Day Visible Supply ($ Million)	$ 873	+ $365	+ $ 832
Stocks:			
Dow-Jones Averages:			
Industrials	1,315.41	+ 13.44	+ 191.06
Transportation	645.16	+ 17.61	+ 167.07
Utilities	163.32	+ 1.34	+ 38.95
65 Stocks	541.57	+ 8.02	+ 103.24
Standard and Poor's 500 Stocks	189.55	+ 1.26	+ 36.31
N.Y.S.E. Composite Index	109.63	+ .76	+ 21.48
N.Y.S.E. Avg. Daily Vol. for Week (000's)	107,558	– 5,386	+ 19,265

* 46% Taxable equivalent 16.31%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/31/85	Week Ago
Overnight	7.50%	7.38%
1 month	7.63	7.75
3 month	7.75	7.94
6 month	8.00	8.25
1 year	8.50	8.75
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	10.15%	10.32%
Long Term (7 to 15 yrs.)	10.65	10.85

FOREIGN EXCHANGE SPOT RATES New York Opening (5/31/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01608	62.2050
Canada	.7260	1.3775
Denmark	.09013	11.0950
France	.1062	9.4125
Germany	.3237	3.0892
Italy	.0005072	1971.50
Japan	.003969	251.97
Mexico	.003597	278.00
Netherlands	.2872	3.4820
Switzerland	.3836	2.6070
U.K.	1.2738	.7851

Great golf! Great cause! Great price!

The Manufacturers Hanover Westchester Classic will be held at the Westchester Country Club in Harrison, N.Y., June 3-9, 1985.

- Tickets for the Sports House and Grounds for 7 days—$60. Grounds only—$45. Monday and Tuesday (practice rounds)—$5 or $3 per day. Wednesday (the Pro-Am)—$10 or $6. Thursday, Friday, Saturday, Sunday—$18 or $15 each day.
- Scott Simpson, defending champion and other top pros from the PGA Tour, will compete for $500,000 in prize money.
- Proceeds help support the following area hospitals: United, Lawrence Auxiliary, New Rochelle, Northern Westchester, Phelps Memorial, St. Agnes, St. John's, St. Joseph's, St. Vincent's, Blythedale Children's, Greenwich, Mount Vernon, White Plains, Yonkers General.
- Tickets on sale at all these hospitals through June 2, thereafter at the gate. To charge with MasterCard or VISA call 212-808-8513.
- For more information call (914) 967-5356.

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